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C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 005860

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USTR FOR SAUMS
USDOC FOR 4520/ITA/MAC/SAMS, TALAAT AND JACOBS/WIEHAGEN

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TAGS: [ETRD](#) [PGOV](#) [PREL](#) [ECON](#) [EG](#) [USTR](#) [QIZ](#)
SUBJECT: EGYPTIAN TRADE MINISTER JUSTIFIES EXPANSION OF QIZ PROGRAM

Classified by Charge Stuart Jones for reasons 1.5 b and d.

1. (C) During Charge's July 28 courtesy call on Minister of Trade and Industry Rachid, the Minister raised the issue of expanding Egypt's Qualifying Industrial Zones (QIZs). Rachid noted that he had sent Deputy Secretary Zoellick a letter detailing the need for expansion (text of letter below), and that his staff was consulting with the Embassy and USTR on the necessary elements of a formal request for QIZ expansion. Rachid's point person on QIZ, Sayed El Bous, said that he hoped that Egypt and Israel would make a formal joint request for expansion during the first week of August.

2. (C) The Charge noted that the previous day's congressional approval of CAFTA was good news for Egypt. It cleared the way for consideration of the GOE's QIZ expansion request and removed a potential political impediment on the path to an FTA.

3. (C) Noting that only about 70 of the 397 companies registered under QIZ were currently exporting, at a relatively modest volume, Rachid said he hoped for a quick and favorable decision on QIZ expansion. As for the FTA, he praised the technical groups that were reviewing FTA obligations, stating that the experts were forging good working relations. The work of the expert groups and the successful launch and implementation of the QIZ program, he said, should help build support for, and speed negotiation of, an FTA.

4. (SBU) Begin text of letter from Minister Rachid to Deputy Secretary Zoellick.

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H.E. Robert Zoellick
Deputy Secretary of State
United States of America

Cairo, July 18, 2005

Dear Bob,

It was a pleasure meeting you in Cairo last week. I was delighted to discuss some of the important issues with respect to the relations between our two countries. In this regard, I highly appreciate your support to extend the Qualifying Industrial Zones (QIZ) as we have agreed before.

Since the signing of the QIZ, which currently includes 3 zones, Greater Cairo, Alexandria, and Suez Canal Zone, 397 companies, mostly small and medium enterprises, are registered and started exporting to the U.S. Between February and May 2005, the total exports of these companies reached around \$42 million.

Within the framework of Egypt's efforts to positively integrate into the global economy, the QIZ is definitely one of the key instruments we can use to boost the economic reform process. By providing Egyptian products free-market access into the U.S., the QIZ can help the Egyptian industry withstand global competition. Hence, costs of reform can be minimized, especially with respect to the issue of unemployment, which is key to the sustainability of reform in a populous country like Egypt.

More importantly, the fact that the QIZ is the first trade agreement signed by the U.S., Israel and Egypt gives all its economic benefits great political ramifications for the Middle East. Trickle down the benefits of the QIZ to the people on the street in Egypt means a change in the mindset of the Egyptians with respect to Israel. The extension of the QIZ to more zones ensures that more people will be affected by this change. And we cannot underline the importance of such a mindset change for Middle East peace enough. To say the least, it is key to allow Egypt, as a regional leader, to play an active role in the normalization of Arab-Israeli relations.

I look forward to the opportunity of further discussing all these issues with you.

Sincerely,

Rachid M. Rachid
Minister of Foreign Trade and Industry

End text of letter.

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JONES